



**Fifth Meeting
May 3, 2011
Minutes**

Via Teleconference
U.S. Department of Commerce
Washington, DC 22686

Members Present: *Steve Case, Revolution (Co-Chair), Mary Sue Coleman, University of Michigan (Co-Chair), Desh Deshpande, Sparta Group, A123 Systems, Sycamore Networks (Co-Chair), Tom Alberg, Madrona Venture Group, , Tom Baruch, CMEA Capital, Claude Canizares, Massachusetts Institute of Technology, Curtis Carlson, SRI International, Ping Fu, Geomagic, Christina Gabriel, Carnegie Mellon University, Barron Harvey, Howard University, Ken Morse, ESADE Business School, Rose Ann Rosenthal, Ben Franklin Technology Partners SEPA, Carl Schramm, Kauffman Foundation.*

Members Absent: *James Andrew, Boston Consulting Group, Robin Chase, Meadow Networks, Marcelo Claire, Brightstar, Michael Crow, Arizona State University, Krisztina Holly, University of Southern California, Ray Leach, JumpStart, Michael Roberts, The Roberts Companies, Holden Thorp, University of North Carolina at Chapel Hill, Jeffrey Wadsworth, Battelle, Charles Vest, National Academy of Engineering.*

Staff: *Paul J. Corson, Brett Feeney, Alexander Nichols, M. Bilal Mahmood, Charlotte Ashford*

Public Attendance (via teleconference): The National Advisory Council on Innovation and Entrepreneurship (NACIE) invited the public to listen to its open session meeting via teleconference at 2:00PM presiding on May 3, 2011.

Welcome and Opening Remarks by EDA Staff:

Paul J. Corson called the meeting to order, and welcomed attendees. Mr. Corson then outlined the meeting agenda, which focused on discussing the Council's Capital Sub-committee draft report on "Improving Access to Capital for High-growth Companies." Mr. Corson followed by moderating discussion on each of the report's recommendations, reading them one at a time and asking for comments, objections, or consent to the recommendation.

Discussion

Recommendation #1: Tax Incentives for Seed-Stage Business Investments

"The Administration should propose a 30% refundable tax credit to members of accredited angel groups for investments into US-based startups. The credit would apply to investments of up to \$200,000 in a Qualified Small Business (less than \$50 million valuation at time of investment), and refunded within the first fiscal year the investment was made."

Members provided no objections or proposed changes to the recommendation. It was unanimously adopted for inclusion in the final draft of the report.

Recommendation #2: Capital Gains Incentives for Early-Stage Business Investments

“The Administration should continue its support of a proposed permanent exclusion on capital gains tax under IRC Sec 1202, limited to investments held for at least 5 years in a Qualified Small Business (less than \$50 million valuation at time of investment) with its exclusion as an Alternative Minimum tax preference item. Additionally, IRC Sec 1045 should be amended to extend the permitted rollover period on QSB capital gains from 60 days to 9 months.”

Carl Schramm inquired as to whether the intent of this recommendation was to help the limited partners or the managers of venture funds, emphasizing the need to focus on limited partners. Tom Baruch agreed, clarifying that the report should focus its recommendation on capital invested by limited partners.

Members agreed to change the recommendation to emphasize a focus on invested capital and the importance of limited partners.

Recommendation #3: Tax Incentives for Startup Operating Capital

“The Administration should propose a 100% exclusion on corporate income tax for qualified small businesses on their first taxable year of profit (after use of any Net Operating Losses), and a 50% exclusion on the following 2 years of profit. Deferral for employee taxes on exercise of NQ stock options in QSBs is also requested to match ISO-like incentives.”

Members concurred with the intent of the recommendation. It was unanimously adopted for inclusion in the final draft of the report.

Recommendation #4: Review of Federal Grant Approval Processes

“Federal agencies should reduce their standard SBIR and STTR approval timelines from a 6-12 month process to a 3-month timeframe. Acceleration of the approval process will ensure better matching to early-stage business cycle and capital needs.”

Members strongly supported the recommendation in principle, but had questions and comments. Mary Sue Coleman raised a concern that speeding up the SBIR/STTR process would require agencies to set-up a separate review process. Christina Gabriel, having worked with NSF’s SBIR program, addressed that concern, contending that it is possible to integrate existing review processes with shorter overall time frames. Ms. Gabriel did suggest, however, that the Capital Sub-Committee consult a private advisory board led by Chuck Wessner to discuss similar SBIR / STTR issues.

Members moved on to a broader discussion of the current obstacles facing the SBIR/STTR program and opportunities to gain traction on the report’s recommendation. Ken Morse noted differences between the House and Senate reauthorization bills and expressed concern that the final bill may not include everything members would want. Desh Deshpande agreed and raised the possibility of engaging Congress on the issue.

Mr. Corson concluded by saying he would follow up on the issues raised. With no objections or proposed changes to the recommendation, it was then unanimously adopted for inclusion in the final report.

Recommendation #5: SBA's Early Stage Innovation Fund

"We support the SBA's efforts to amend its existing SBIC program to better address startup capital needs through the proposed Early-Stage Innovation Fund. We encourage them to continue efforts to reduce lead SBIC-license approvals and interest rate burdens, with consideration to emerging investment classes for future SBIC eligibility."

The Council strongly supported the recommendation, with some clarifying language. Christina Gabriel noted that the emphasis of the Fund should be on new, small and medium-sized start-ups. Tom Alberg and Tom Baruch each noted that the recommendation should also encourage the SBA to consider expanding its definition of what types of funds are eligible for the SBIC program to include a broader range of stakeholders such as Business Angel groups. Desh Deshpande noted that further engagement by NACIE members with SBA would be appropriate and useful.

Ping Fu also raised a concern that the existing SBIC program requires a company be profitable, thus deterring some of the impact of such a recommendation for early-stage companies without profit. Desh Deshpande clarified that the recommendation's focus on easing the interest rate burden on SBIC portfolio companies would address the concern.

Members concluded by suggesting the recommendation be amended to include more specific terms on which investment classes should be supported (i.e. angel funds, micro VCs etc.).

Recommendation #6: Capital Gains Incentives for Later-Stage Business Investments

"The Administration should commit to maintaining the current capital gains tax at 15%, or provide exclusion for investments in businesses from the respective 5% and 3.38% increases in earned-income tax under the Bush Tax Cut expiration and PPACA reforms."

Several members voiced concern about the capital gains tax being a contentious issue. Carl Schramm encouraged the Council not to focus on VC general partners. Desh Deshpande clarified that the intent of the recommendation was to increase incentives for investment by multiple classifications of investors and not necessarily VC general partners or fund managers.

Members agreed to change the recommendation to provide more clarity about the target beneficiary.

Recommendation #7: Regulatory Incentives for Public Market Analysis

"The SEC is encouraged to intervene in the implementation of the Spitzer Decree to permit investment banking revenue to fund research analyst coverage with a prominent warning label of conflicts of interest. Additional requirements should be established that mandate investment banks underwriting an IPO to provide analyst reports on the IPO issuer for at least 5 years."

Several members voiced strong support for the recommendation, given its capacity to preserve the independence of analysts and promote transparency within institutions. Carl Schramm voiced concern

that while well-intentioned, the recommendation should not be considered among the highest priorities. Most members of the Council agreed, however, this recommendation merited inclusion in the report.

Members concluded that clarifying language could be added around the recommendation, with the content of the recommendation unchanged.

Recommendation #8: Regulatory Exclusions for Initial Public Offerings

“The SEC should explore amendments to Section 404 of the 2002 Sarbanes-Oxley Act to ease the frequency and compliance controls of mandated external audits on smaller public companies (<\$2 billion market cap).”

The Council, as a whole, supported this recommendation. Claude Canizares suggested the language be slightly less strong however, considering the recommendation was asking for “mitigation” rather than “exclusion”. It was also suggested that stated effects of Sarbanes Oxley compliance on smaller public companies be qualified by the dollar amount of costs, rather than as a percentage of total revenue.

Members agreed that the requested changes would be incorporated into the recommendation, as part of the final draft for the report.

Concluding Remarks and Next Steps

With agreement on each of the recommendations, Mr. Corson thanked the members for their time and contributions.

This meeting was adjourned at 3:00pm.